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Fiscal Federalism in Canada: ★ The Record to Date The Challenge Ahead

Government of Canada

SUMMARY

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The amendments to the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act legislated in April 1982 will reduce federal government transfer payments to the provinces by nearly \$6 billion over the next five years. Ontario alone will suffer a \$1.9 billion reduction in its transfer payments. These cuts are a manifestation of the federal government's new strategy for dealing with the provinces. The key elements of this strategy appear to be a deliberate and continuing program of reductions in transfer payments to provinces combined with new and unilateral thrusts into provincial spending areas. This paper challenges the federal government's view of the historical record and its emerging approach to federal-provincial relations.

The first section of the paper documents the history of federal retrenchment during the last decade and concludes that, far from being on the fiscal offensive during the 1970s, the provinces "have sought merely to minimize their losses" (page 12).

The second section of the paper addresses the facts on fiscal imbalance. It is shown that there has been no significant change in the federal government's share of total government expenditures since 1967. *"There is no basis in the time series data or international comparisons for concluding that the process of fiscal decentralization is continuing or that Canada is an overly decentralized federation"* (page 15).

The paper shows that the real fiscal imbalance is "between the governments of the provinces which export oil and gas and those which import it" (page 13). Provincial fiscal capacities and tax efforts are documented. Very little attention was accorded this problem of interprovincial imbalance during the 1982 fiscal arrangements discussions and "in fact, it appears that the fiscal arrangements package legislated in April will actually worsen the interprovincial imbalance in the country" (page 20). In financial terms, Ontario fares substantially worse under the new legislation than most other provinces. Given Ontario's historic support of the many programs for redistributing incomes among the regions and provinces of Canada and the significant contribution of federal taxpayers in Ontario to financing these programs, "there should be greater concern that the overall transfer system leaves the Ontario public sector in a position where its ability to provide provincial-local services is lower than that of any other province" (page 24).

The third section of the paper examines the recent discussions on revised fiscal arrangements, setting Ontario's concerns about the process and outcome within the broader context of the issues that are emerging in the 1980s. Ontario rejects the *"serious federal charges that national standards under the established programs are in jeopardy, that services are deteriorating and that clients of the system are being 'cheated' by provincial policy"* (page 33). The section shows that the federal charge of provincial "underfunding" is based on erroneous "share" calculations and is not borne out by real evidence on spending performance. *"Ontario believes that continuing federal criticisms of provincial health and post-secondary education programs could have the unfortunate consequence of undermining public confidence in services that are in fact of very high quality by international standards"* (page 33).

The section also documents Ontario's concern that, in legislating a new equalization formula, "the federal government has clearly shown its unwillingness or inability to come meaningfully to grips with the ten-year old problem of energy-related fiscal imbalance among the provinces — a problem that is slowly but surely undermining the structure of fiscal federalism" (page 36). Ontario has been urging reform to address this problem since its 1980 budget. "The new fiscal disparities associated with oil and gas urgently need to be addressed, but the new equalization formula overlooks them almost completely" (page 34).

The paper also provides Ontario's perspective on the 1981-82 fiscal arrangements discussions. These were not "negotiations" in the traditional sense because the time frame was too short, the federal government refused to modify its EPF position and financial issues were separated from programming issues.



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The final section of the paper sets out a number of steps that can be taken immediately to improve the federal-provincial climate. For example, Ontario proposes a new approach to the Established Programs Financing arrangement that would clarify responsibilities and improve "accountability" for the expenditure of public funds. Most importantly, the federal government must affirm its commitment to genuine negotiation and co-operation with the provinces.

"For the longer term, it is clearly necessary for governments to engage in a new and fundamental dialogue concerning the roles and responsibilities that each order of government should have in the federal structure of the 1980s and 1990s" (page 41). Ontario therefore proposes a meeting of First Ministers and Ministers of Finance to explore these questions and commission a report to Parliament and the provincial legislatures. Until this research is complete, the federal government should refrain from further transfer cuts and major new changes in existing programs.

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